



iQIYI (IQ) 2018 Q3 Earnings Summary

November 2018

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## iQIYI Benefits From A Diversified Business Model That Improves Monetization As It Scales

### MEMBERSHIP

- **The most important driver for the quick ramp-up of subscriber numbers is their premium content**
  - Will consider a price change once they see a slowdown trend of the membership growth
  - Continue to extend the paying period of subscribers, and it's currently around 6 months, which is up from 3 months
- **There will be subscribers that come for specific content, but don't see any legacy deterioration on their churn rate**
  - Occasionally they launch some holiday-related promotions to attract new users, but for the most part, the offer is quite steady

### ORIGINAL CONTENT

- **Continue to devote resources towards self-producing premium original content and look at 2 metrics to measure success**
  - Viewing time of that show consumed by users versus the total time spent in that specific time frame
  - Look at the first actual payment collected from the users who convert to a subscriber on this content
- **Professionally Generated Content (PGC) has been a very important component of the platform and continues to grow**
  - **Vertical format content appealed to users and plan on doing some tests to see how they can apply that to other parts of the business**

### PARTNERSHIPS

- **Joint membership program with JD.com is progressing nicely and will pursue other cross-industry partnerships**
  - Attracts a steady inflow of annual subscribers who wish to enjoy benefits from both companies
  - Helps reach different geographic and demographic users but also enhances the benefits and privileges for VIP members
- **Joined forces with Beijing Gehua CATV cable network and Baidu to launch their AI integrated set-top box**
  - **First time that a traditional cable TV network in China has partnered with an Internet video streaming company**

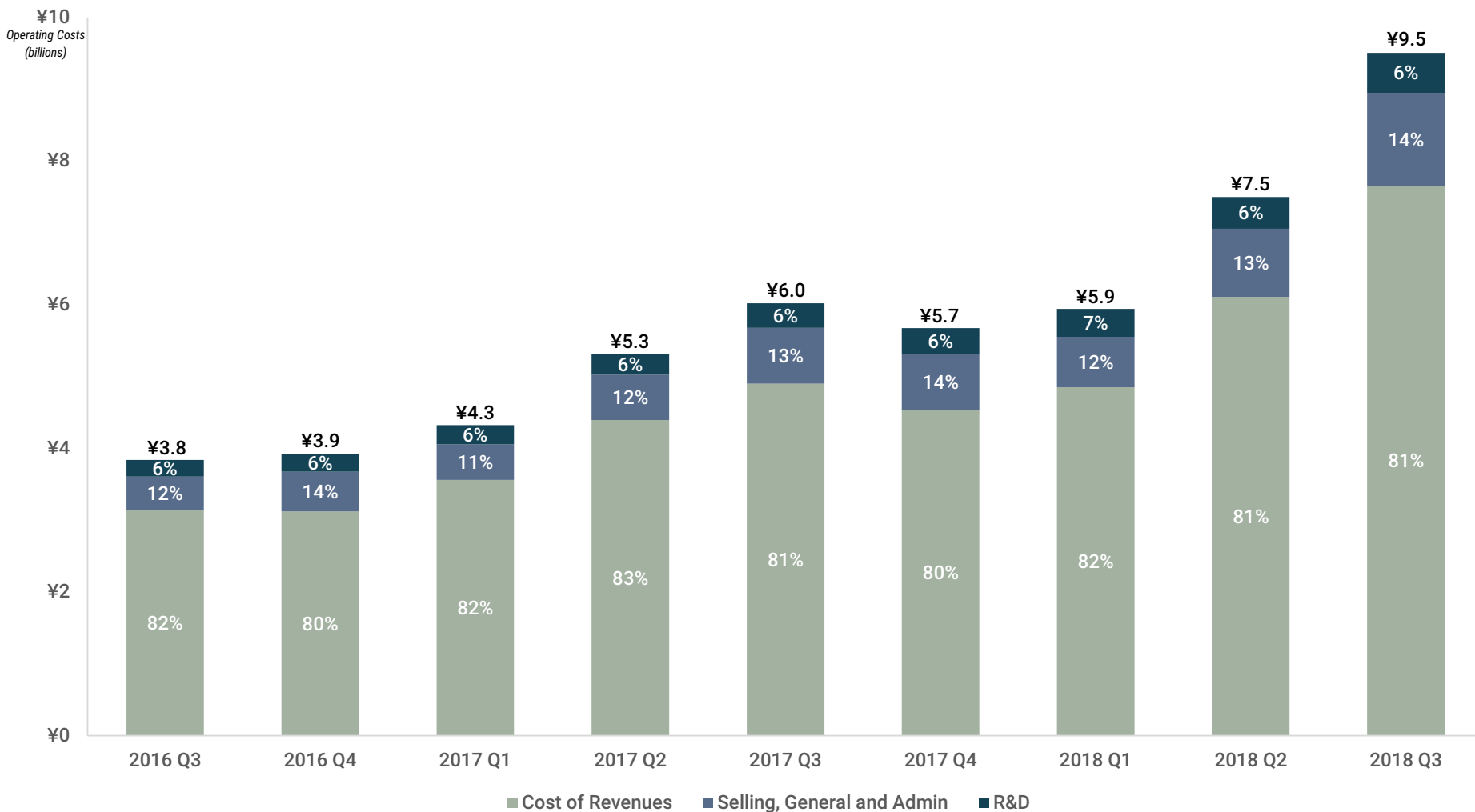
### ADVERTISING

- **Advertising business went through some difficulties this year, due to a number of factors**
  - FIFA World Cup awarded advertising budgets to traditional TV
  - Cleaned up in-feed advertisement from certain high-risk profile sectors
  - Certain regulation has particularly impacted some of their online game clients who used to spend heavily in advertising
- **Remain confident in the advertising business which is an important component of their business model**
  - Trying to expand, diversify and optimize the client pool in an effort to be resilient to potential challenges and deliver sustainable growth

*Similar to Netflix, subscriber growth is imperative as it ramps up spending on high quality original content*

# Operating Costs

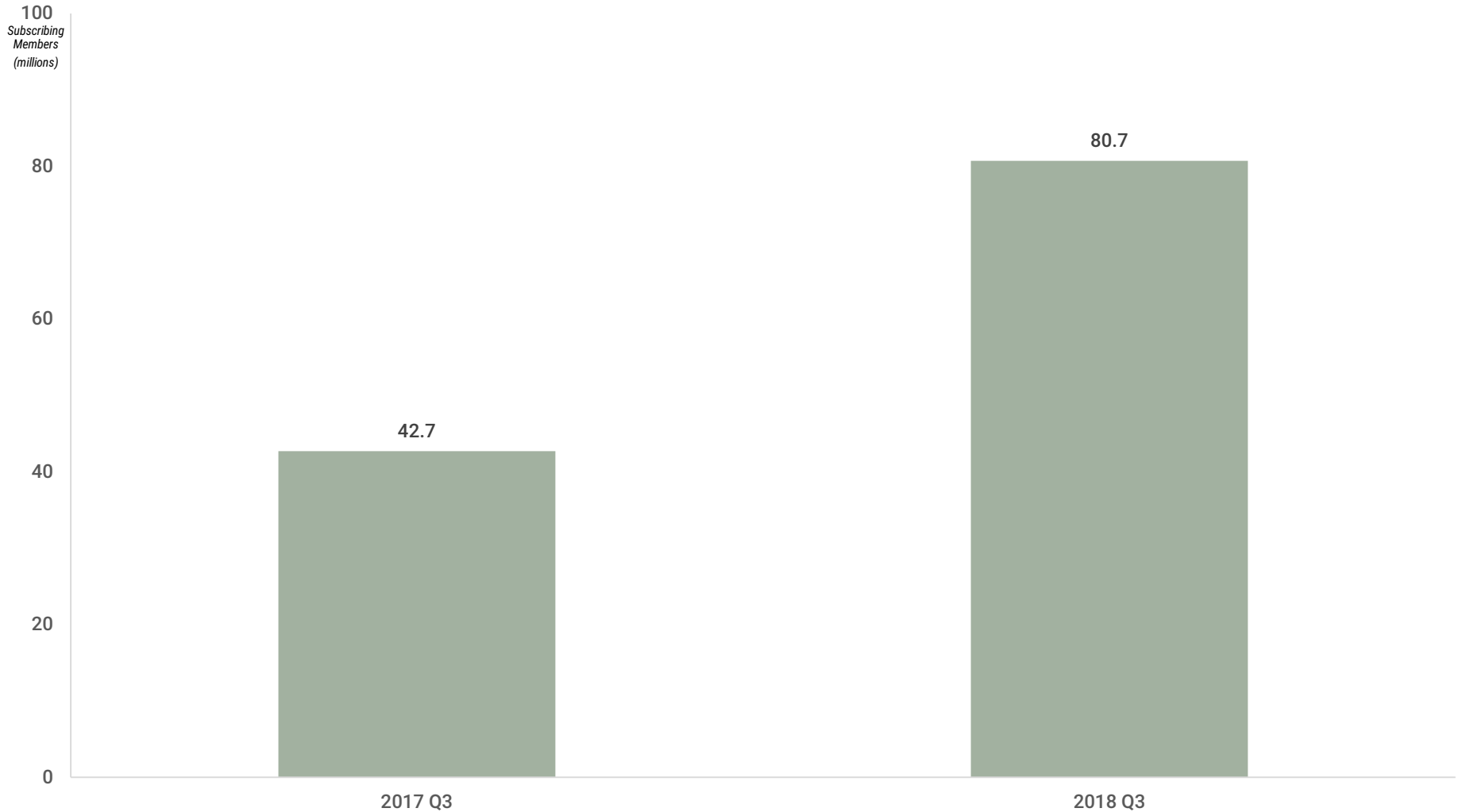
The Shift Towards Shorter Seasons Of Premium Original Dramas Is Accelerating Their Content Costs



User generated content is a cost-efficient way to retain subscribers in between their popular drama and variety shows

# Subscribers

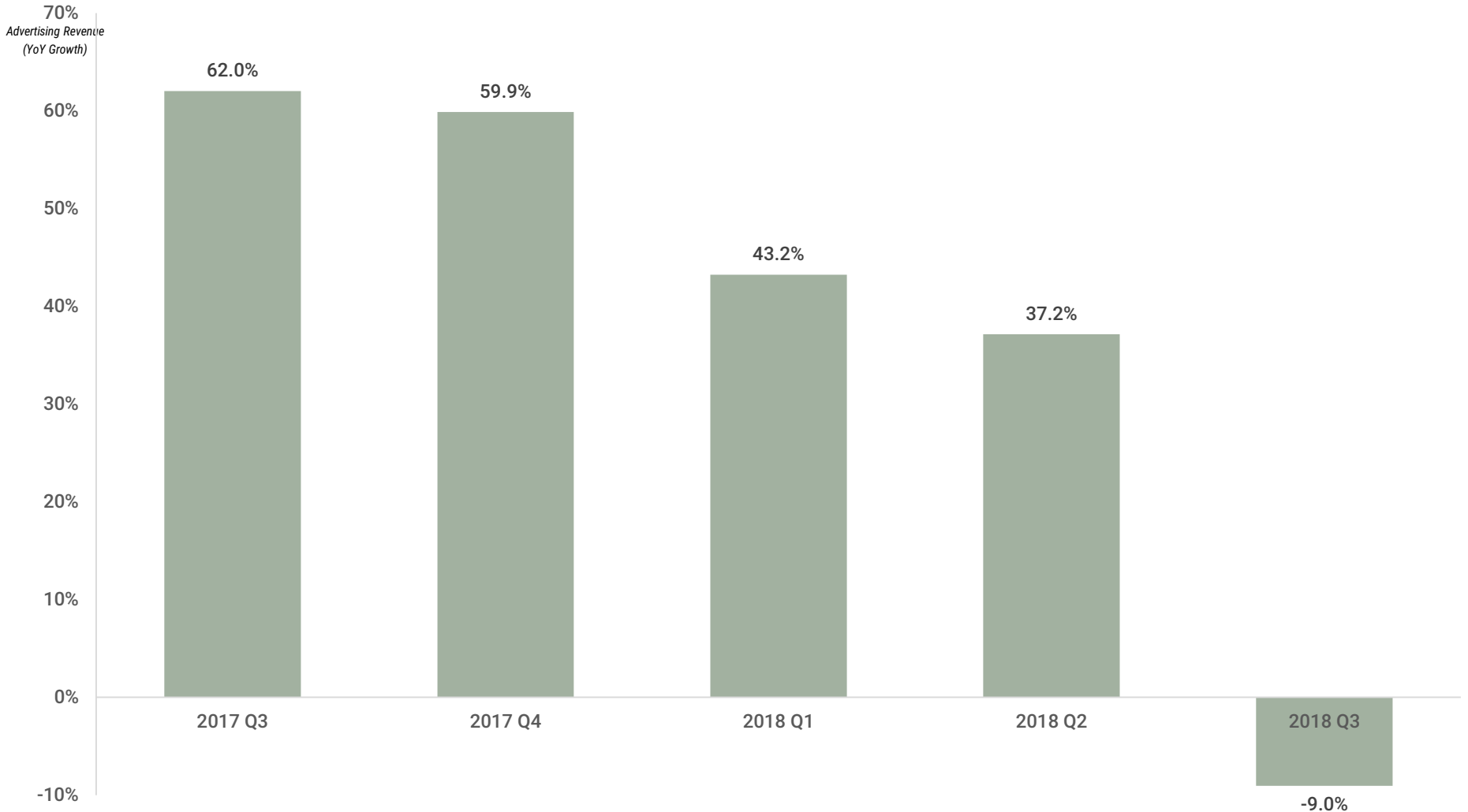
Cross Industry Promotions Expand Their Distribution And Helps Broaden Their Membership Base



*The new joint venture with Super Sports Media can open the platform to an entire new audience segment*

# Advertising Revenue

Advertising Growth Has Been Slowing Down, But The Last Quarter Was Impacted By Unique Circumstances



*Steady growth from content distribution and licensing can offset poor performance from other parts of the business*